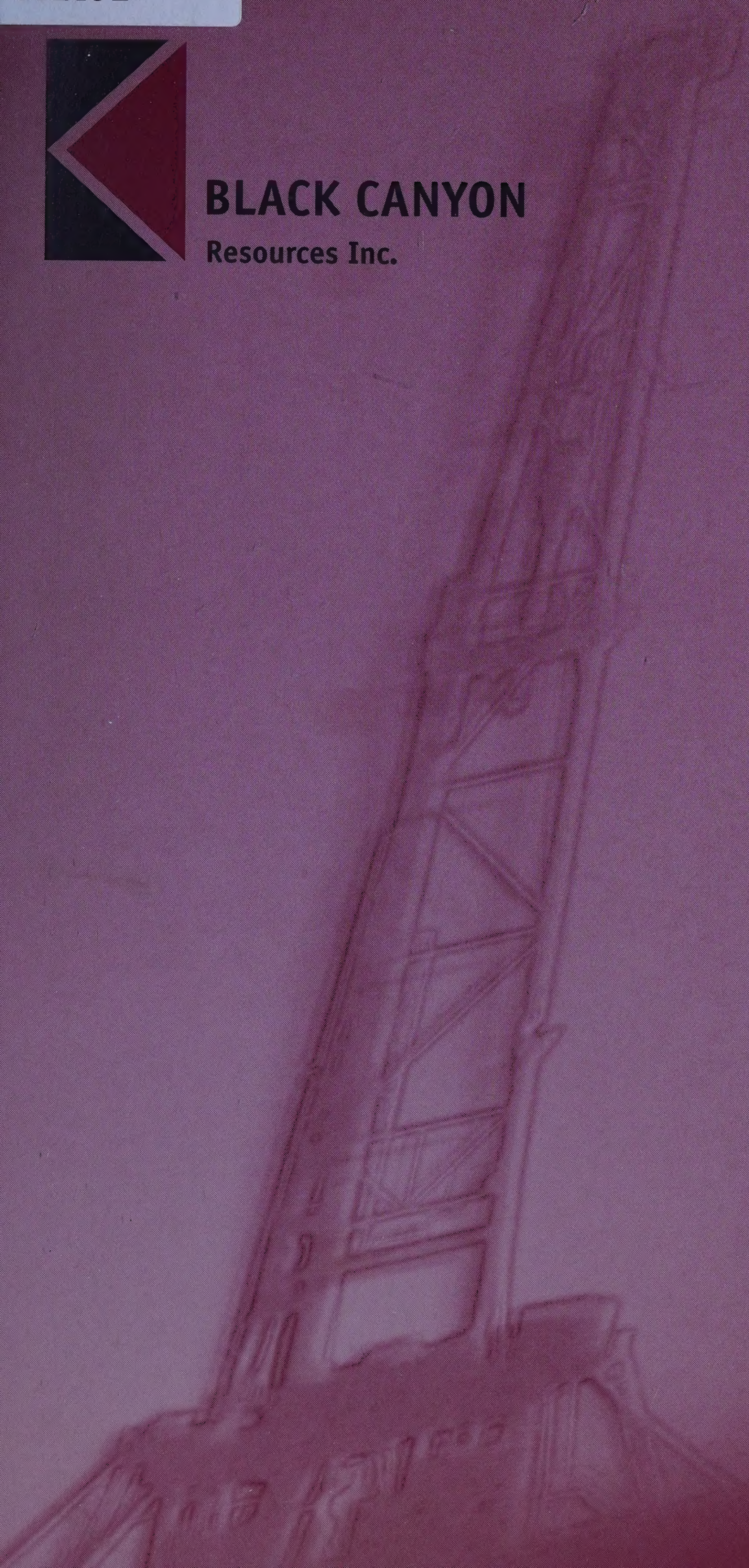
BLACK CANYON
Resources Inc.



Annual Report 1998

CONTENTS

ABBREVIATIONS

APO........After Pay Out
bbl........Barrel
bbls/d........Barrels per day
boe........Barrel of Oil equivalent
boepd........Barrel of Oil equivalent per day
bopd........Barrel of Oil per day
BPO........Before Pay Out
mcf........Thousands of cubic feet
mcf/d........Thousands of cubic feet per day
mmcf........Millions of cubic feet
P&NG........Petroleum and Natural Gas

President's Message

1998 was a tough year for many companies in the oil and gas business. Investment in the industry virtually disappeared as a result of slumping oil prices. Lack of capital impacted companies with a gas bias as well and caused a significant portion of Black Canyon's exploration and development programs to be delayed. This resulted in lower than anticipated production rates that compounded the problem of weaker oil prices.

During 1998 Black Canyon acquired a 25% interest in nine sections of land in the Waskatenau area, north of Edmonton, and participated in the drilling of one well to test the Devonian. Information gained from this well is being used in the ongoing exploration of the area.

The balance of Black Canyon's activities in 1998 focused on existing properties. During the summer Black Canyon and its partners attempted to establish production from two zones in our 2-15 well located in the Golden Spike area of central Alberta. Production was established from the Viking zone however it quickly watered out. We were unable to successfully establish communication with the lower zone, which still remains a prospective target.

Although 1998 was a very trying year for many companies in the industry, Black Canyon looks forward to 1999 with optimism. Facilities expansions in our core area of Golden Spike should allow increased gas production from our proven reserves in the area. This increased production will help fund the additional drilling of prospects identified on our lands.

As of January 1, 1999 Black Canyon has wound-up its wholly owned subsidiary, Golden Spike Energy Corporation. The resulting general and administrative cost savings combined with reduced operating costs and increased production in 1999 are expected to allow Black Canyon Resources Inc. to return to profitability.

We thank our shareholders for their continued support.

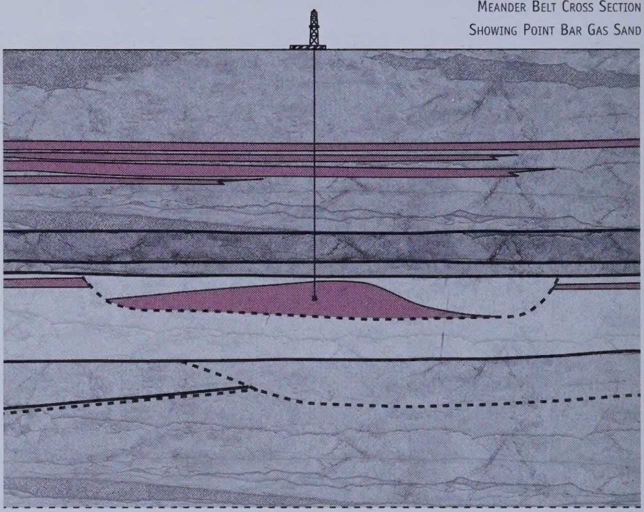
On behalf of the Board of Directors,

Robert J. Tessari

President and CEO

MANAGEMENT DISCUSSION & ANALYSIS

Meander Belt Cross Section
Showing Point Bar Gas Sand



Average daily production averaged 43 boepd in 1998 down from 72 boepd in 1997. This is reflective of Black Canyon's sale of its interest in Long Reef Resources and its sale of 50% of its working interest in the Roncott property. Gas production from Golden Spike was also less due to the loss of economic production from the 2-15 well. Although the 2-28 well's production rate has also declined this decline has been largely offset by reduced downtime.

Weaker oil prices impacted revenues with average prices for oil decreasing to $21.00/bbl from $28.53/bbl in 1997. Meanwhile average gas prices were $1.45/mcf as compared to $1.48/mcf in 1997 reflecting a higher percentage of sour gas being produced.

Depletion rates increased to $ 5.56/boe due to the capital costs associated with the completion of the 9-8 well and the unsuccessful attempts to establish additional production from the 2-15 well.

Although operating expenses increased to $367,584 management has taken steps that are expected to significantly reduce these costs including the installation of water handling equipment and the suspension of the high-pressure injection operations.

CAPITAL

During 1998 Black Canyon received $167,000 as a result of the exercise by management and the directors of stock options. In accordance with the terms of those option plans the company issued 700,000 common shares.

GENERAL & ADMINISTRATIVE

G & A costs remained relatively constant over last year. The amalgamation with Golden Spike Energy Corp and other cuts being made should reduce G & A significantly in 1999.

RESERVES

The following table was prepared by the independent firm of Chapman Petroleum Engineering Ltd. using escalated cost and pricing assumptions based on the Alberta Treasury Branches price forecast criteria:

	Reserves Oil MSTB	Reserves Gas MMscf	Reserves NGL Mbbls	Cumulative Cash Flow (BIT) M$ Undisc.	Discounted at 10%/yr	Discounted at 12%/yr	Discounted at 15%/yr
Proven Producing	**31.0**	**99.5**	**0.1**	**302.0**	**215.9**	**204.2**	**188.9**
Proven Non-Producing (Developed)	237.0	2,931.6	0.0	8,272.0	3,796.9	3,398.4	2,925.0
Total Proven (Developed)	**268.0**	**3,031.1**	**0.1**	**8,574.0**	**4,012.8**	**3,602.6**	**3,113.9**
Probable	214.7	6,600.9	0.0	10,830.0	4,623.5	4,056.8	3,383.2
Proven Plus Probable	**482.7**	**9,632.0**	**0.1**	**19,404.0**	**8,636.3**	**7,659.4**	**6,497.1**
Less 50% Probable	107.4	3,300.4	0.0	5,415.0	2,311.8	2,028.4	1,691.6
Proven Plus 50% Probable	**375.3**	**6,331.6**	**0.1**	**13,989.0**	**6,324.5**	**5,631.0**	**4,805.5**
Land Value	-	-	-	235.0	235.0	235.0	235.0
Grand Total	**375.3**	**6,331.6**	**0.1**	**14,224.0**	**6,559.5**	**5,866.0**	**5,040.5**

KEY PROPERTIES

RONCOTT, SASKATCHEWAN

Weak oil prices combined with the high operating costs associated with the water-flood project resulted in an operating loss from the area in 1998. In order to reduce operating costs Black Canyon and its partners have suspended the operation of the high-pressure injection facility. The facility can be restarted when economically feasible.

GOLDEN SPIKE, ALBERTA

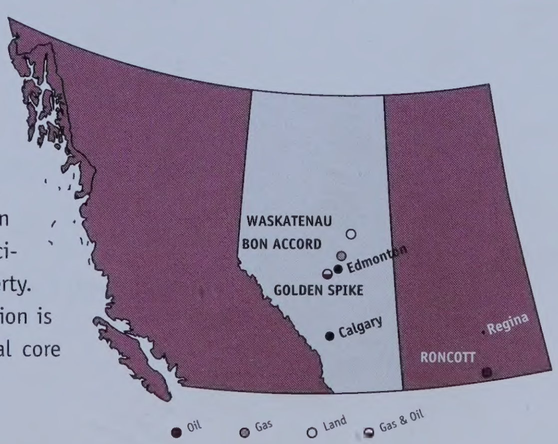
This continues to be Black Canyon's most promising property. With the increased emphasis on natural gas the Golden Spike area of west central Alberta is becoming more active. Due to its land holdings and proven reserves in the area Black Canyon is positioned well to capitalize on this activity.

ATCO has committed to more than triple its plant capacity and several new companies are becoming interested in the area. These upgrades are expected to allow for increased production from the area in 1999. Water treatment and handling equipment has increased production time and reduced costs.

Although industry wide lack of capital has forced Black Canyon and its partners to delay much of the development work the current strengthening of oil prices will hopefully allow us to complete these projects in 1999.

WASKATENAU, ALBERTA

During the third quarter of 1998 Black Canyon acquired a 25% working interest in 5760 acres of P&NG leases in the Waskatenau area of north central Alberta and participated in the drilling of an exploratory well on the property. Although the initial well was unsuccessful this acquisition is anticipated to provide Black Canyon with an additional core area in the future.



Auditor's Report

To the Shareholders of Black Canyon Resources Inc.:

We have audited the consolidated balance sheets of **Black Canyon Resources Inc.** as at December 31, 1998 and 1997, and the consolidated statements of loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statement present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997, and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Barr Shelley Stuart

Barr Shelley Stuart, Chartered Accountants

Calgary, Alberta

May 6, 1999

Consolidated Balance Sheets
As at December 31

	1998	1997
Current Assets		
Cash	$ 629	138,391
Accounts receivable	227,074	707,102
	227,703	845,493
Petroleum and Natural Gas Properties and Equipment (Note 4)	3,504,494	2,864,647
	$ 3,732,197	3,710,140
Current Liabilities		
Accounts payable	$ 327,510	268,714
Long Term Debt (Note 5)	1,170,000	800,000
Provision for Site Restoration	5,300	2,400
	1,502,810	1,071,114
Shareholders' Equity		
Share Capital (Note 6)	3,070,890	2,903,890
Deficit	(841,503)	(264,864)
	2,229,387	2,639,026
	$ 3,732,197	3,710,140

Approved on Behalf of The Board:

Robert J. Tessari, Director

Thomas A. Hewitt

Thomas D. Hewitt, Director

Consolidated Statements of Loss and Deficit
For the Years Ended December 31

	1998	1997
Revenue		
Oil an gas production	$ 270,661	575,663
Less: royalties	37,164	124,705
	233,497	450,958
Operating costs	367,584	239,806
	(134,087)	211,152
Expenses		
General and administrative	253,238	236,225
Interest	56,971	11,626
Site restoration	2,900	2,400
Depletion and amortization	129,443	167,557
	442,552	417,808
Loss Before the Following	(576,639)	(206,656)
Loss on sale of subsidiary	-	(117,177)
Net Loss for the Year	(576,639)	(323,833)
(Deficit) Retained Earnings at Beginning of Year	(264,864)	58,969)
Deficit at End of Year	$ (841,503)	(264,864)
Loss Per Share	$ (0.03)	(0.02)

Consolidated Statements of Cash Flow
For the Years Ended December 31

	1998	1997
Cash Provided by (Used In)		
Operating Activities		
Net loss for the year	$ (576,639)	(323,833)
Add items not involving a current cash outlay		
Loss on sale of Subsidiary	-	117,177
Depletion and amortization	129,443	167,557
Site restoration	2,900	2,400
Cash flow from operations	(444,296)	(36,699)
Changes in working capital balances related to operating activities		
Accounts receivable	480,028	(696,940)
Accounts payable	58,796	86,495
	94,528	(647,144)
Financing Activities		
Proceeds from long term debt	370,000	800,000
Issuance of common shares	167,000	-
Repayment of debenture	-	(150,000)
Proceeds from Long Reef Resources Inc. debt	-	197,166
Issuance of flow through shares net of tax benefit	-	668,960
Issue of common shares on acquisition of subsidiary	-	410,000
Share issuance costs	-	(58,489)
	537,000	1,867,637
Investing Activities		
Purchase of petroleum and natural gas assets	(769,290)	(2,238,403)
Net proceeds on sale of Subsidiary	-	21,188
Proceeds on sale of petroleum and natural gas assets	-	500,000
Net assets acquired on acquisition of subsidiary	-	(356,586)
	(769,290)	(2,073,801)
Decrease In Cash	(137,762)	(853,308)
Cash at Beginning of Year	138,391	991,699
Cash at End of year	$ 629	138,391

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 1998 and 1997

NOTE 1 BASIS OF CONSOLIDATION

These financial statements include the operations of Black Canyon Resources Inc. ("Black Canyon") and the results of the consolidation of its wholly owned subsidiaries, Golden Spike Energy Corporation ("Golden Spike") and Golden Spike Energy Resources Inc. Also included are the results of operations of Black Canyon's 50% interest in Long Reef Resources Inc., a joint venture on a proportionately consolidated basis, until September 26, 1997.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

(a) *Petroleum and Natural Gas Properties*

The Company follows the full cost method of accounting for petroleum and natural gas properties and equipment whereby all costs, net of government incentives, relating to the exploration for and development of oil and gas reserves, are capitalized in cost centres on the basis of national geographic boundaries. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, related plant and production equipment costs and overhead charges.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss except where such a disposal would alter the depletion rate by 20% or more.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion, deferred income taxes and the site restoration provision from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, based on current prices and costs, and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

(b) *Depletion and Amortization*

Accumulated costs of petroleum and natural gas properties and equipment, including provision for future development expenditures, are depleted using the unit-of-production method based on an estimate of gross proven petroleum and natural gas reserves, as prepared by independent petroleum engineers.

Accumulated costs are reviewed annually for impairment in value. Additional depletion is provided if the aggregate net book value of petroleum and natural gas assets exceeds estimated future net production revenues.

For purposes of the depletion calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

Office equipment is amortized on a declining basis at a rate of 20% per annum.

(c) *Future Site Restoration and Abandonment Costs*

The estimated costs for future site restoration and abandonment are reviewed on an annual basis. The estimates are based upon regulatory and industry standards in effect at year end. These costs are compared to the estimates of salvage values and sales proceeds and the net annual charge, if any, is recorded as a provision for site restoration. The actual site restoration costs would be charged to the provision as incurred.

(d) Joint Venture Operations

Substantially all of the Company's exploration and production activities are conducted jointly with other entities. Accordingly these financial statements reflect only the Company's proportionate interest in such activities.

(e) Flow-through Shares

The tax benefits of income tax deductions renounced to holders of flow-through shares are deducted from share capital and petroleum and natural gas properties based on the actual amount renounced at year end.

(f) Measurement Uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and the provision for future abandonment and site restoration costs are based on estimates. By their nature, these estimates and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

NOTE 3 ACQUISITION OF GOLDEN SPIKE ENERGY CORP.

Effective January 31, 1997, Black Canyon acquired all of the issued and outstanding shares of Golden Spike, an oil and gas exploration and development company. The results of operations have been included in the financial statements since the date of acquisition.

The transaction was effected by the issue of 1,281,250 common shares of Black Canyon and has been accounted for using the purchase method.

The fair market value of the net assets acquired were as follow:

Cash	$	67,509
Other current assets		13,596
Petroleum and Natural gas properties		581,169
Accounts payable		(88,179)
Debenture payable		(150,000)
	$	424,095
Consideration given		
Common shares	$	410,000
Acquisition costs		14,095
	$	424,095

NOTE 4 PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

		1998		1997
	Cost	Net Book Value	Cost	Net Book Value
Petroleum and natural gas properties	$ 3,696,631	3,498,631	2,933,362	2,864,647
Office equipment	5,863	5,863	-	-
	$ 3,702,494	3,504,494	2,933,362	2,864,647

During the year the Company capitalized $75,000 (1997 $69,000) of general and administrative costs. The Company has undeveloped property in the United States with a carrying value of $308,497 which is not subject to depletion.

The 1998 ceiling test was performed using the year end price of $18.50 per barrel for Saskatchewan light crude and $2.10/mcf for gas. Based on these parameters, no write-down was required.

NOTE 5 LONG TERM DEBT

	1998	1997
An oil and gas revolving demand bank loan payable as to interest only at prime plus 1.25% per annum, secured by a general security agreement covering all of the assets of the Company.	**$ 750,000**	800,000
Loans from a director and a company controlled by the director. These loans are unsecured with no fixed terms of repayment and with interest terms similar to the demand bank loan.	**420,000**	-
	$ 1,170,000	800,000

The interest on long term debt was $53,653 (1997 - $9,742).

NOTE 6 SHARE CAPITAL

(a) Authorized

Unlimited number of common voting shares
Unlimited number of first, second and third preferred shares

(b) Issued

Common Shares	Number	Amount
Balance, December 31, 1996	12,855,002	$ 1,883,419
Issued for cash		
Flow through shares net of tax benefits renounced of $392,040	2,267,143	668,960
Issued on acquisition of subsidiary	1,281,250	410,000
	16,403,395	2,962,379
Share issuance costs	-	(58,489)
Balance, December 31, 1997	16,403,395	2,903,890
Issued for cash		
Stock options exercised	700,000	167,000
Balance, December 31, 1998	17,103,395	$ 3,070,890

(c) Preferred Shares

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges and conditions attached to the shares of each series.

(d) Stock Options

The Company has a stock option plan under which the Board of Directors can grant options to purchase common shares to directors, officers, senior employees and consultants.

The Company has granted stock options on 190,000 common shares as follows:

	Price per Share	Number of Shares	Expiration Date
Directors	$0.35	150,000	May 5, 2002
Director	$0.32	40,000	January 31, 2002

(e) Share Purchase Warrants

The Company had 400,000 share purchase warrants outstanding. Each warrant entitled the holder to purchase one common share of the Company at $0.60 up to December 31, 1998. These warrants expired without being exercised.

(f) Escrowed Shares

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 693,338 common shares issued or obtained in connection with the initial incorporation or secondary market were held in escrow at December 31, 1997 and released on May 3, 1998.

NOTE 7 DISPOSAL OF INTEREST IN LONG REEF RESOURCES INC.

Effective September 26, 1997 the Company disposed of its 50% interest in Long Reef Resources Inc. for proceeds of $50,050 resulting in a loss of $117,177.

NOTE 8 INCOME TAXES

The Company has approximately $995,000 (1997 - $645,000) of non-capital losses which may be carried forward and applied against future income for income tax purposes. These losses will expire as follows:

2000	$ 3,000
2001	215,000
2002	183,000
2003	108,000
2004	136,000
2005	350,000

The Company has available tax pools of approximately $3,060,000, (1997 - $2,630,000) and share issuance costs of $77,100 (1997 - $115,000) available for deduction against future income taxes.

The benefits of the above have not been recognized in the financial statements.

NOTE 9 RELATED PARTY TRANSACTIONS

During the year the Company had the following related party transactions:

(a) Paid $111,000 (1997 - $91,000) to companies controlled by directors for management services. Of this amount, $36,000 (1997 - $30,000) has been included in general and administrative expenses and $75,000 (1997 - $61,000) has been capitalized to petroleum and natural gas properties.

(b) Paid $26,589 (1997 - $22,926) to a company controlled by a director relating to rental of office space. This amount has been included in general and administrative expenses, with $19,900 (1997 - $7,905) of this amount included in accounts payable at December 31, 1998.

NOTE 10 SEGMENTED INFORMATION

The Company's business activity consists of the exploration for and development and production of oil and gas reserves. Its activity is conducted in western Canada and the United States. The carrying value of the United States land is $308,497. All operating activity and capital expenditures pertain to the Canadian operations.

NOTE 11 UNCERTAINTY DUE TO YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use dates in 1999 to represent something rather than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and , if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. As at December 31, 1998, management has implemented plans they consider necessary to address the expected effects of the Year 2000 issue on the Company. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Corporate Information

BOARD OF DIRECTORS

Robert J. Tessari
Thomas D. Hewitt
John A. Tessari
Bruce McGrath

OFFICERS

Robert J. Tessari
President and CEO

Bruce McGrath
Secretary - Treasurer

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SOLICITORS

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Bank of Montreal
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LISTED

Alberta Stock Exchange (BCN)